

# **Capacity Reduction, Quota Trading and Productivity: A Case Study of the Australian South East Trawl Fishery**

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## **Abstract**

This paper analyzes the effects of a license buyback and the establishment of a brokerage service to stimulate quota trading on the profitability of vessels in the Australian South East Trawl Fishery. Using individual firm-level data and a profit index decomposition method, we find that all vessel classes (small and large) experienced substantial productivity gains in the year immediately following the license buyback and the establishment of a quota brokerage service, despite declines in catch per unit of effort for key species in the fishery. Smaller vessels, which may lack the flexibility of large vessels to substitute across inputs, appear to have benefited the most from the changes with their mean contribution of productivity to profits rising by 60 percent over the sample period. The beneficial effects of the buyback and increased quota trading are in stark contrast to the generally unfavourable long-term outcomes commonly associated with vessel buybacks in input-controlled fisheries.